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Nov. 24, 1993 LETTER 1135

HELLO, INFLATION: I guess I should label this Letter "The Inflation Special." Why? Because as I see it, inflation is now subtly starting up, and I believe it will be very visible during '94. Did you notice the 0.4% jump in the latest Consumer Price Index (that's inflation at almost a 5% annualized rate)? The CRB Futures Index is also moving up sharply, bonds have topped out, gold and gold stocks are moving up, the grains are in a major bull market, taxes are climbing (and believe me, rising taxes are inflationary), the Fed continues to monetize at a white-heat rate, and hundreds of annoying little boosts are occurring in such items as breakfast cereals, breads, dry cleaning, batteries, etc. For more on the budding inflation trend, see the Notes & Quotes section.

Economists See Higher Food Inflation As Grain Stockpiles Shrink in Midwest

By Scott Kilman
Staff Reporter of The Wall Street Journal

CHICAGO — Economists are raising food inflation forecasts for 1994 in the wake of a government report that the Midwest crop disaster is shrinking grain stockpiles to precariously low levels.

Donald Rataiczak, an inflation fore-

ConAgra Inc. and Decatur, Ill.-based Archer-Daniels-Midland Co.

ConAgra fattens roughly 15% of the cattle slaughtered by its meatpacking unit, and grain-based feed is a large part of the expense of raising livestock. ADM has a hard time passing along the higher costs of making ethanol from corn because the fuel

Home Prices Surge In 3rd Quarter, NAR Reports

By JOHN D. McCLAIN
Associated Press Writer

WASHINGTON — Demand spurred by low mortgage rates drove up prices of previously owned homes in the third quarter, par-

Iowa. The Realtors said 67 cities posted median-home-price increases either equalling or exceeding the national median.

The price gains in the South, in addition to Ft. Myers, were paced

THE PICTURE: I have nothing against this bull market except that it's ancient and getting rather silly. My wife, Faye (a corporate lawyer) works on many IPOs (initial public offerings). She tells me that all three of the printers her law firm uses (for printing prospectuses) are jammed with orders and are working around the clock. Does that tell you something?

Can't Get a Loan? Well, There's Always The Stock Market

* * *

These Days, Investors Will Put Money Into Any Company That Waves a Prospectus

By Sara Calian
Staff Reporter of The Wall Street Journal

This is what made America great?

For decades the stock market has provided the seed money for the nation's great enterprises, from General Motors to International Business Machines to Microsoft. Now Mr. Christmas Inc., a maker of "electro-mechanical" Christmas decorations,

It's ironic, but despite high US unemployment, this nation is drowning in liquidity (thanks, of course, to the Fed). Those lucky ones who still have a job are frantically looking for somewhere to put their money. It seems as though anything will sell today -- a new barbecue chicken franchise, a teddy-bear manufacturer, a single-drug biotech start-up, a new invention not yet in production.

This is a period of rampant financial inflation if I ever saw one. How long inflation of financial assets can continue without it rubbing off on real or tangible assets I don't know. My guess -- it's already starting to happen, since the price of tangible "things" appears dirt cheap compared with the inflated price levels of stocks and bonds.

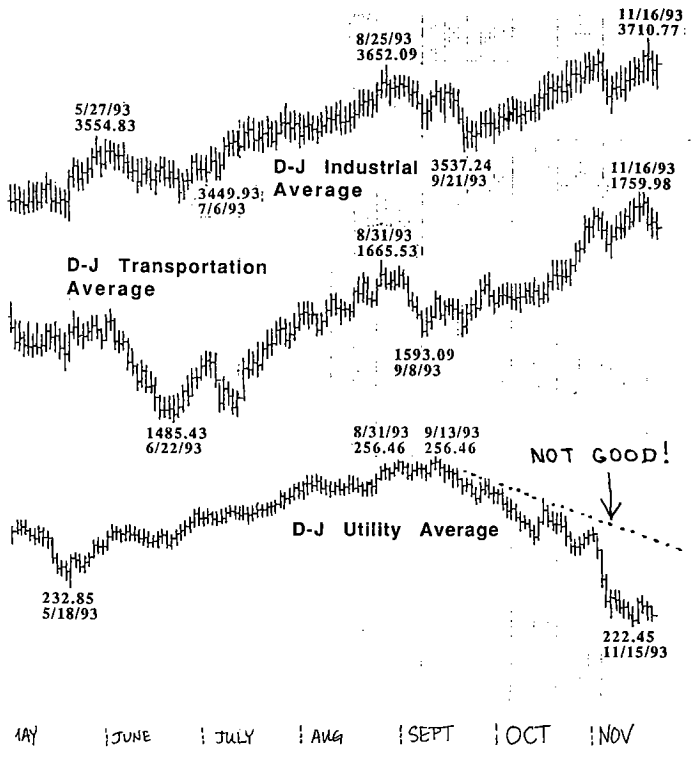
Nov. 12 DJIA 3684.51; PTI 4008; A-D Ratio -2.76
Nov. 19 DJIA 3694.01; PTI 3999; A-D Ratio -3.47
Dow Yield: 2.71%; Dow Price/Earnings: 36.2
Dow 200-day MA: 3526; Dow 30-day MA: 3658
Dow Times Book Value: 3.22; PTI 89-day MA: 3952
Percentage of Undervalued Blue-chips: 8%
Dow Low Risk Buy Index: +76; Gold-PTI: 1130

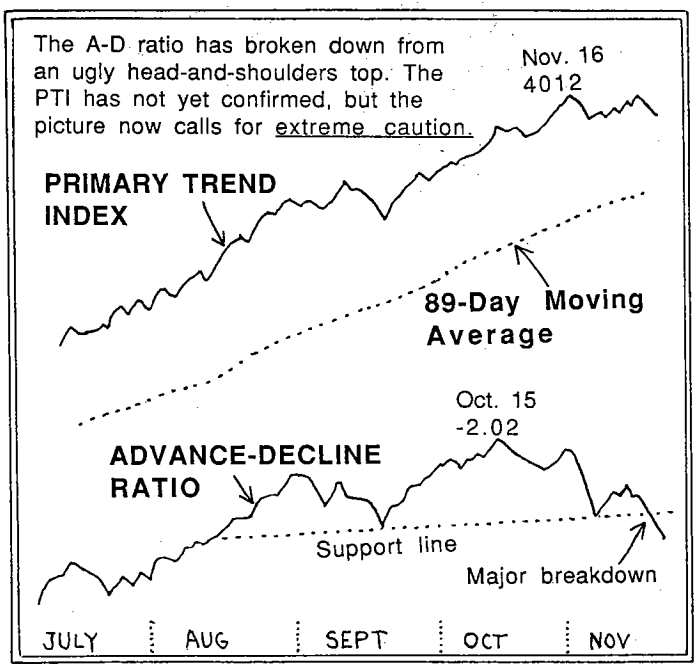
TECHNICALS: Nov. 16 -- the Dow and the Transports closed at simultaneous record highs. Ordinarily I would term this bullish action -- except for the slump in the Utility Average (down more than 30 points from its Sept. 13 high) and for the horrific performance of the advance-decline ratio. In fact, on Nov. 16, the day the Averages hit highs, there were only 73 more advances than declines (NYSE) and there were only 74 new highs for the day -- in all, a highly suspect performance.

In the last Letter I stated that the amazing one-year-old Buying Stampede had ended.. As you can see on the page 2 chart, the A-D ratio then formed a bearish head-and-shoulders top. On Nov. 17 that top was completed as the A-D cracked important support and headed lower.

Add to that the ominous breakdown in the NYSE Financial Index (comprised of all banks, S&Ls, REITs, brokers, insurance companies, loan companies), and you have a market that has already cost many investors their 1993 profits.

My Primary Trend Index (page 2 chart) struck a high of 4012 on Nov. 16, then turned down. The A-D ratio might be the leader at this time with the PTI the lagger. However, the PTI has served us well for many years, so I'll wait and allow the PTI to tell its own story, even if it's only a confirming one. All in all, I'd have to say that this market is not a pretty sight.





Note on the chart above: This is one of the most bearish formations I've ever seen in the A-D ratio. As I see it, the A-D ratio has now placed a decisive roof over this market.

INVESTMENT POSITION: The bull remains in the box, but due to old age all his teeth have fallen out and he's wheezing badly. El Toro's going to need even more emergency stimulation from the Fed soon, or we'll be looking at oxtail soup and ground beef.

I don't care what anyone tells you, when the Dow is yielding 2.70% (which is actually below the inflation rate), it's darn hard to make money in the stock market. True, the US is swimming in capital, and today, if you can name it, you can sell it. Mutual funds continue to proliferate -- on the week ending Oct. 4, 10 new funds appeared. On the week ending Oct. 11, honest, 24 new funds were floated. But sooner or later sanity always returns to the stock market, and that's something that has a lot of us old-timers worried. The trend of the Utility Average also worries me.

So I'm sticking with my recommendation of gold stocks, gold funds, gold options. In the long run, the trend is always towards VALUE, and I'm convinced that the value today is in gold.

I've added two stocks to my gold recommendations (both on the Toronto Exchange), Franco-Nevada and its sister, Euro-Nevada. Both of these are extremely interesting situations -- they are strictly royalty operations, receiving royalties from gold mines (they take royalty options on the land and let the mines do the work). How's this for a business -- Franco-Nevada has only 16 people on its payroll, has a cash flow of $50 million a year, has $350 million in the bank and NO debt at all. Euro-Nevada had a cash flow of $2.8 million in 1990, $3.6 mils. in 1991, $4.8 in '92, $9.1 in 93. Buy 'em both; I did.

By the way, Pierre Lassonde, President of both Franco-Nevada and Euro-Nevada, is a true gold expert, and he has written a superb book entitled, "The Gold Book" (paperback, Penguin, $14.95). This book includes many fascinating chapters covering every phase of gold and gold investing. Just the chapter on the history of gold is worth twice the price of this book. Get the book, it's invaluable for understanding gold.

THE YEN: Continuing the series on the currencies, in this issue I want to talk about the Japanese yen. The original yen was born in 1871; it was a copy of the dollar, and one yen equaled one dollar. Japan never entered the first World War, so they never inflated their currency. By the end of the War the yen had moved up to $1.06.

The yen split from the dollar during the '20s, and sank to 40 cents. In 1933 the yen tied to the pound, but when the pound sank the yen sank with it. Came 1939, and the Japanese tied the yen to the Nazi reichsmark. Not a good move. By the end of the War in 1946 the yen was worth 875 to the dollar. In 12 years the yen had lost 99.9% of its value vs. the dollar.

In 1949, the beginning of modern Japan, the yen was fixed at 360 to the dollar. It held there until 1970. The great Japanese production machine went into force. By 1970 the yen had climbed mightily -- to 120 per dollar. At present, the yen is moving in a range of 105 to just under 100 to the dollar. In other words, a yen today is worth just under one cent. This represents an incredible climb from 875 yen to the dollar in 1946 to 100 per dollar in 1993.

At this point, the Japanese are worried. they do not want a higher yen since the "expensive" yen is hurting their exports. The US, of course, would like a higher yen in order to put a brake on Japanese imports to the US. There's talk of a fixed relationship between the dollar and the yen.

But with the US government placing the economy ahead of the value of the dollar, it is doubtful whether any currency can be tied on a fixed basis with the dollar. The long-range projections for the dollar are too bearish. With a rising national debt and continuing bearish trade balances, the future of the dollar would appear to be down and down. It's simply a question of timing.

NOTES & QUOTES: Einstein once remarked, "There are two things that are infinite -- space and human stupidity." How's this for an example of the latter? Last year the world spent a total of $600 billion on weapons of war (this while 2.1 billion people in the poorer nations had annual incomes of $500 or less). Furthermore, 29 separate wars have been in progress since 1992. Also, since '92 war deaths have been the highest in 17 years. Another sick statistic: since WWII there have been 149 major wars (a major war is defined as a war where there are at least 1,000 deaths per year). In those 149 wars, a total of 23,142,000 people have been killed. This was double the number of deaths from wars in the 19th century, seven times the deaths from wars in the 18th century. So the twentieth century goes down as by far the bloodiest century in history. "Civilization" marches on.

* *

This Letter contains quite a bit about inflation. The government tells us that there's no inflation. But who in his right mind believes the government and its thousands of government-paid number crunchers? One glaring error in the government's figures is that they don't factor in taxes. In fact, as columnist Malcolm Berko recently wrote, there's a lot the government doesn't factor in. For instance, "there's the 50% increase in booth tickets in S. Florida, the 35% increase in insurance premiums in LA, Miami, and Des Moines, the 300% increase in a can of freon, the 60% increase for a dog license, the 100% increase in a drivers' license, the 150% increase in occupational licenses, the 30% increase in traffic tickets, the 15% increase in breakfast cereals, the 20% increase in ground round beef, and the doubling in price of fountain-pen ink." Well, you get the idea, inflation is still endemic. So if you read the government's figures on inflation and believe them, you are in zonky-zonk land.

* *

One legitimate place to look for inflation or deflation is in the CRB Spot (cash) Index. Here's a P&F chart of the Index, and you can see the comment, "Chart is holding bullish trend with reversal above the support line and projects a long-term up move." The chart and comment are courtesy of *Chartcraft Futures,* PO Box 2046, New Rochelle, NY 10801.

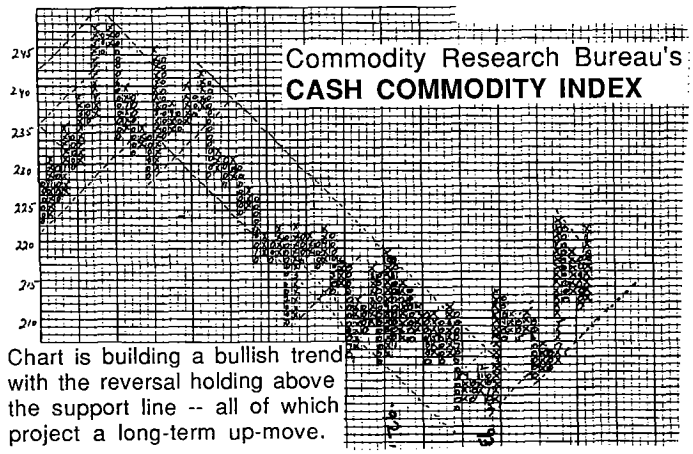


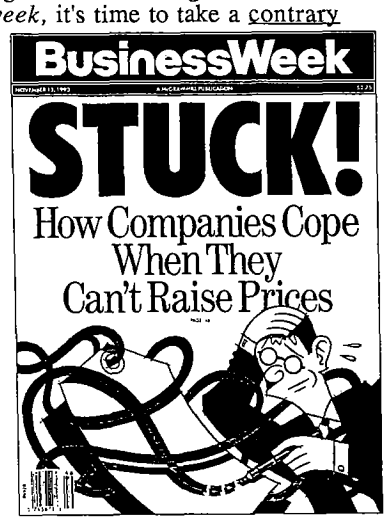
Chart is building a bullish trend with the reversal holding above the support line -- all of which project a long-term up-move.

* *

Bill Gary's [*Price Perceptions* -- (800) 231-0477] latest mailing notes that "the USDA forecasts world grain reserves at a 19-year low . . . Rice projects to become the grain market's shortest in supply. Rice futures advanced 90% in the past six weeks as traders began to realize the serious nature of the shortage . . . *as the true magnitude of tightness (in grains) becomes recognized, a bull market should unfold into 1994."* Russell comment: Looking at the charts, all the grains are now in an uptrend with corn approaching its 1992 high, wheat is in a definite uptrend along with soy beans. Grains are heavily weighted in the CRB Futures Index. Watch for an upside breakout in the cash CRB at 225 (at which point, I believe, you will see accelerating inflation statistics).

* *

It's been said that when any trend is so widely accepted that it makes the cover of a national, high circulation magazine such as *Business Week, Time* or *Newsweek,* it's time to take a contrary opinion stance. In view of this, I was struck by the cover of the November 15 *Business Week.* This is a cover story regarding the problems corporations are having because they are unable to raise prices. The contrary opinion: we are approaching the time when corporations will be raising prices, which, will correspond to rising inflation. Rising inflation, of course, would be directly contrary to current conventional wisdom, and contrary to everything we read or hear from the media today



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I'm reading a very interesting and new book by Peter Peterson entitled, "Facing Up, How to Rescue the Economy From Crushing Debt & Restore the American Dream." Peterson notes, among other things, that the rising tide of debt and entitlements are killing this country. His answer -- we've got to cut entitlements (particularly health), we've got to take the pain. Peterson notes that none of our presidents have taken the necessary steps to end the approaching crisis, and Clinton has proved to be a disappointment. It's a very serious book written by Lehman's former CEO, and I recommend it. My own view is that politicians won't do anything important until the debt miasma reaches the crisis stage. What happens when the crisis hits? Aside from gold going sky-high, I wish I knew.

* *

Your congressman or senator and you want some "pork" for your state. Easy, next time a big Clinton bill comes up just announce that you're "undecided," but that you can be persuaded. Then, when Clinton promises you a new bridge or a new defense plant -- presto, you've got ammunition for the next election. I mean, gifts to the needy.

Sotheby's $13.9 Million Sale Signals Accelerated Recovery in Art Market

By Alexandra Peers
Staff Reporter of The Wall Street Journal

Yesterday's auction at Sotheby's Holdings Inc. proved that the art market is recovering at an accelerated pace.

Sotheby's huge sales room proved to be a vibrant and efficient marketplace. Bid-

Even some of the art market's deepest pockets were priced out of the rally. Larry Gagosian, an influential New York art dealer and frequent bidder, said he chased two or three of the artworks, "but they all went too high." He added, "By any measure, this was a very successful auction."

Sotheby's Sets Record At Jewelry Auctions Held in Switzerland

By a Wall Street Journal *Staff Reporter*

NEW YORK – The market for jewelry and precious gems heated up at a series of Sotheby's Holdings Inc. auctions in Geneva, Switzerland.

A two-day series of sales ended late yesterday, raised approximately $70.9 million. That was about $15 million more than expected and broke the firm's own record of $50.2 million for the sale of the Duchess of Windsor jewels in 1987. In fact, jewelry is now outperforming Impressionist and modern paintings, Sotheby's core auction business.

"Of all the major markets, the jewelry market is the strongest right now," with bidders from 10 countries active at the sale, said Diana D. Brooks, president of

Art (some of it not even top quality) sold for outrageous prices during the 1980s. It is generally conceded that a large part of the art insanity was due to Japanese buying. Japan, if you remember, featured the ultimate "bubble economy" of the 1980s, and during that period the Japanese were over-paying for everything in sight. The last three or four years saw the big correction, and prices of most paintings declined, often drastically. But art prices now seem to be recovering, as notes this piece from the Nov. 11 *WSJ.* Historically, art prices are a sensitive barometer of forthcoming inflation. I have also mentioned the very firm prices in quality jewelry. The "rich," who buy top-quality art and jewelry, don't pay on a rising scale unless they sense that something is up. That something is tomorrow's inflation.

* *

"Christmas comes but once a year, and when it comes it brings good cheer." But not if you're buying jewelry for your spouse or friend. I just saw Dianne Sawyer's Primetime TV show, and this program had to do with buying diamonds (Sawyer used a hidden camera). One NYC dealer sold a Sawyer confederate a diamond for $3,600 (it was a junk stone) -- a few weeks later another confederate tried to sell the same stone to the same dealer -- only to be offered $800 for the stone. Another "reputable" dealer switched stones on a Sawyer confederate, removing a top-grade diamond and setting a junk stone in its place. It was an outrageous show, and I was angry.

Back in Letter 1127 I told subscribers about my good friend, D.K. Maltin, here in La Jolla. D.K. is an honest jeweler, and he delights in selling top-quality jewelry at extremely reasonable prices. After I wrote about D.K., he was amazed -- orders came in (diamonds, watches, bracelets, etc.) from subscribers all across the country. Furthermore, all my subscribers were pleased with what they received. Well, Christmas is coming around, and again I will suggest to subscribers, "If you want quality jewelry at excellent, honest prices, call D.K. He's a great guy, and he takes pride in pleasing his customers." You can call the big man (he's big, believe me) at (619) 454-0472 or stop in at his store here La Jolla. If you want it, D.K. has it or he'll get it for you. Again, let me say that I make not a cent on anything you buy from D.K. or anyone else. It just galls me to see my subscribers gypped by dishonest jewelers. There is no other area that I know of where the public spends so much money on shoddy merchandise (it's not the public's fault, they just don't know anything about jewelry, which means they're constantly victimized).

* *

Whatever you want or whatever you want to know, a *Dow Theory Letters* subscriber somewhere will have done it, own it, run it, or be an expert on it. A few *Letters* ago I wrote about America's bison (I love those big shaggy beasts). So presto, last week I received a pretty little catalogue from *Thundering Herd Buffalo Products,* in Reno, NV [(800) 525-9730]. If you want a bison coat or robe, a

massive mounted bison head, moccasins, a skull, Buffalo NY strip steaks (half the cholesterol of beef), etc., give 'em a call.

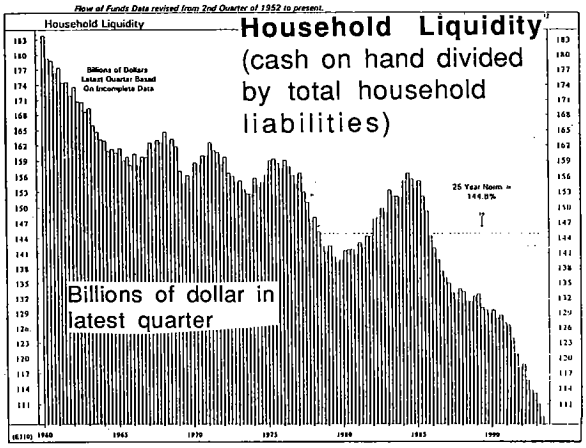
* *

Politicians, it appears, have to promise all sorts of nonsense in order to get elected. Tell people the truth, and you're history. For instance, Clinton, in his pre-election campaign, promised "a tax cut for the middle class." But as soon as Clinton was elected, he professed shock at how large a deficit Reagan and Bush had run up. So good-bye to the tax cut. Instead, Clinton and the congressional Democrats legislated a huge tax increase that will take $250 billion out of the private sector over the next five years and put it in the hands of the government. Now Clinton comes up with a national health plan that will put a massive new burden (such as Canada is suffering under) on US business, particularly small business.

The reaction by Americans is anger and a feeling of having been lied to. The result -- resentful voters want incumbents out. But if the voters would stop believing the politicians in the first place, we'd all be better off. So the revenge of the voters continues. The fact is that voters are telling Democrats that they are sick and tired of welfare liberals with their high taxes, big bureaucracies and fealty to organized labor. I look for a Democratic disaster in the coming '94 elections.

* *

This chart shows Household Liquidity (courtesy of Ned Davis and his extraordinary charts and comments). As you can see, there is about zero liquidity in the average American household. Cash on hand is now about equal to household debts. OK, then how can Americans be boosting their purchases of homes, cars, appliances, etc.? Easy, they're borrowing the money. In September the Fed reported the biggest jump in consumer borrowing in almost six years. Current US sentiment is, "If you want it, buy it, and worry about the payments later."

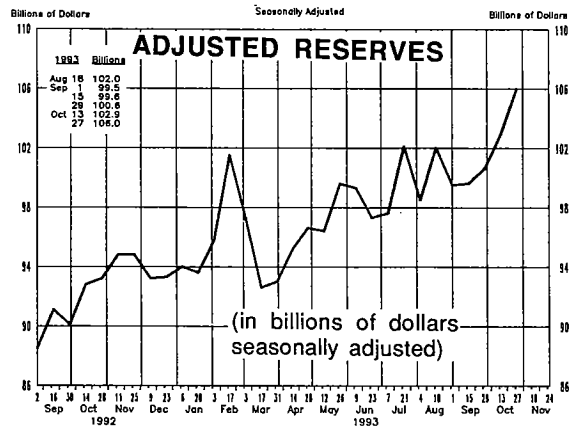

Household Liquidity
Household Liquidity
(cash on hand divided by total household liabilities)
Billions of dollar in latest quarter

* *

I just tabulated the latest 12-month additions to the federal debt. Update -- over the last 12 months the government has **added $353 billion** to the federal debt. I hear a lot of talk about decreasing deficits. Bunk, baloney, rot. You remember the old saying, "Figures don't lie, but liars can figure." Well, Washington can shuffle the statistics around all they want, it still comes out that we are spending $1 billion a day more than we are taking in. To me, that spells either future inflation or future dollar-bankruptcy, take your choice. But since the government can print its way out of bankruptcy, I say it spells future inflation.

You don't believe it? Here's the latest chart of Adjusted Reserves in the banking system, courtesy of the *St. Louis Fed.* Between late-June and late October (the latest figures) adjusted reserves rocketed up at a **compounded annual rate of 19.3%**. Between September 1 and October 27 Reserves rose at a compounded annual rate of **26.4%**.

By the way, Adjusted Reserves rise when the Fed buys Treasury debt from the banking system. When the Fed buys a bond from a bank it creates a credit at that bank, and that credit, in reality, is "cash created out of thin air." Thus rising Adjusted Reserves means



that the Fed is monetizing the debt, and believe me, the Fed has been monetizing the debt at a furious pace (the process of monetizing ultimately leads to inflation).

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The Indians' Revenge: I knew it would be just a matter of time before gambling came to California (why should all those poor California suckers have to traipse to Nevada to lose their hard-earned money?). Well, it's happening. The Indians (who are masters of their own reservations) are lining up to open gambling casinos in the Golden State. Currently, thirty (30, count 'em) Indian reservations have asked the state of California to negotiate gambling agreements. Palm Springs is scheduled to have the highest concentration of gambling in the state. Well, the Indians need the income, and Lord knows, the state needs the taxes.

Caesars Plans $25-Million Palm Springs Indian Casino

■ **Gambling:** Tribal council sets aside downtown site. Pact is seen as an opening for Vegas-style gaming in Southland.

By TOM GORMAN
TIMES STAFF WRITER

PALM SPRINGS—Caesars World Inc. unveiled plans Monday to build a $25-million Indian gambling casino in this community's struggling downtown, positioning itself as the prime player in bringing Las Vegas-style gambling to Southern California.

Tahoe. The casino, half of the overall facility, will be dedicated to high-stakes bingo, various card games, paper pull-tabs and other forms of gambling currently permitted on California Indian reservations under state law.

But Richard Milanovich, chairman of the Agua Caliente tribal council, said he expects California to have entered compacts with his

* *

"Why complain?" runs the old adage. And I answer, "Why not, complaining costs you nothing and it is often therapeutic." So as long as I'm in a complaining mood, ponder this. The IRS has 82,000 employees. That costs us about $9 billion a year. That's a lot of employees and a lot of money. I've been pushing for a national flat tax or a national sales tax for years. Such taxes would represent a huge saving for the government, but, of course, either tax would put the tax industry (lawyers, financial officers, accountants, consultants, tax preparers) out of business. And don't forget, most of congress is made up of lawyers. To go to a flat tax or a national sales tax would mean giving up power. And that's the last thing on earth any pol is willing to do (power and money -- that's what Washington is all about).

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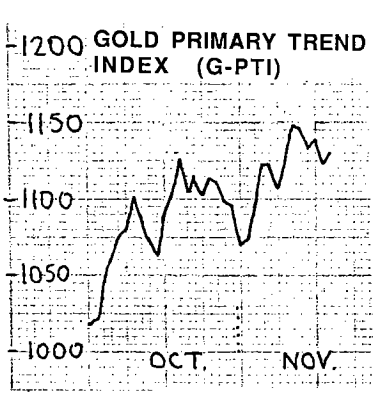


GOLD'S PRIMARY TREND INDEX (G-PTI): In Letter 1132 I said that I had finally developed a PTI for gold. I've been particularly interested in a gold PTI (G-PTI) because in this earlier stage of the gold bull market, we need all the confidence and psychological "backing-up" we can get. I believe the gold PTI will go a long way towards building confidence in the gathering gold bull market.

At any rate, I've included a chart of the daily G-PTI for as long as it has been in existence. As you can see, the trend is strongly bullish. The chart of the new **G-PTI** will appear in each issue of Dow Theory Letters.

GOLD: I'm starting the gold section with the following most interesting excerpts from the 1993 annual report of Euro-Nevada Mining Corp. Ltd: *"As for the price of gold, it has been kept well below its intrinsic value over the past two years by extraordinary distress selling from the former Soviet Union in 1991 and central banks in 1992, which amounted to about 40% of the world's annual mine production. Unfortunately, there is the likelihood that central bank gold sales will persist at least in 1993 and possibly in 1994 . . . The so-called "new breed" of central bankers who have been dumping their gold reserves on the market would rather own each other's dubious paper currencies as well as collectively lose billions of dollars in futile attempts to manage their currencies instead of making their currencies as good as gold.*

"The good news is that despite these massive sales at a time of worldwide recession that has all but extinguished investment demand, the gold price has held above US $325 per ounce. The reason for this is the surge in jewelry demand from southeast Asia, which now accounts for half of the world consumption. China, with its 1.2 billion people who have a tremendous traditional affinity for gold, is emerging as the biggest market force of the 1990s.

"Gold offtake (buying) in China for 1993 will likely surpass 900 tons as 10% plus growth continues to increase disposable income at a record pace. Even at this level, Chinese offtake is still less than 0.7 grams of gold per person versus 10 grams per capita in Hong Kong or Taiwan. Should China reach this level, its yearly offtake would top 11,000 tons of gold. That's more than six times current annual mine production or about a third of all central bank gold reserves.

"Having twice visited southeast Asia and China particularly in the last twelve months, we believe that economic growth will continue unabated over the next five years and we remain very optimistic about the long-term future of the gold price. We would rather side with 1.2 billion Chinese than a few G-10 central bankers!"

GOLD -- Prejudice: It's easy to understand why governments hate gold (it disciplines inflation-happy politicians), but it's more difficult to understand the media's antagonism towards gold. Here's my theory: most reporters simply repeat what they hear when they interview ignorant politicians or equally ignorant or even prejudiced economists. Of course, a second factor is that the media tends to be extremely liberal, and reporters and writers equate gold with something only "the rich can afford." But despite the bad-mouthing of politicians and media, the public harbors healthy instincts about gold. How do I know? I know because the sales of gold jewelry, worldwide, continue at record levels.

Do you remember when everyone was saying (pertaining to the stock market), *"Bad news is good news"*? In other words, bad news on the economy was bullish for bonds, which meant lower rates. Therefore, the worse the economic news, the further down the Fed would push short-term rates, and the more lower rates would fire the stock market.

Today, bulls on gold might now take comfort in the same slogan. *"Bad news about the world economy is good news for gold."* Why is that?

Answer: Business is looking up in the US (although profits in many cases are being squeezed and unemployment remains high). But in Europe and Japan business is terrible. Unemployment is very high in Europe, and Europe's auto business is literally falling apart. At the same time Japan is suffering its worst recession since WWII (Tokyo's Nikkei Stock Average has fallen well below 19,000 for the first time this year).

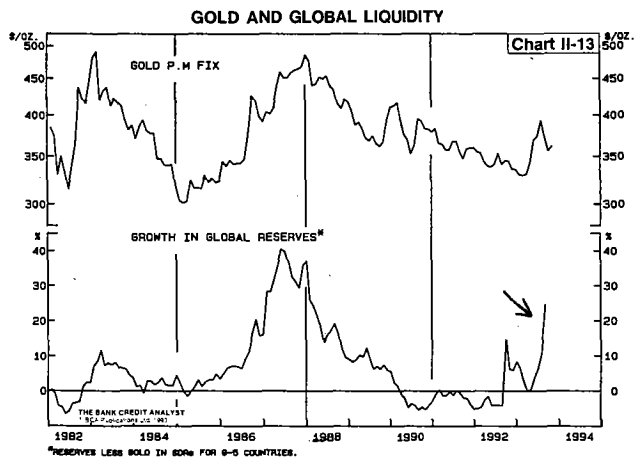
High debt levels in nations everywhere are exerting deflationary pressure on world economies. The reaction by governments to rotten business and high unemployment is to run deficits, to lower interest rates, to expand money supplies and to devalue their currencies. All of these processes are potentially bullish for gold.

So currently, the world is dealing with two opposing forces, the deflationary forces of sky-high debts and the inflationary forces as described in the paragraph above.

At this point, the forces of inflation and deflation are fairly evenly matched. But within a year I expect inflationary forces to come to the fore. Within two years I expect inflation to accelerate. Let me give you the corollary -- if the world can't reflate then it's going to have to deal with a global depression. The bitter choice (you've heard this from me before) is "inflate or die." And I don't know of a government that is willing to die, not while it can manufacture endless amounts of paper money.

So it's an old story -- when you produce too much of any product, that product will decline in price. Nations are now generating an over-supply of paper money (I call it "swimming in capital"). In due time the price or the purchasing power of all this newly created paper money will decline. Decline in relation to what? Paper money will decline in relation to other paper monies (competitive devaluations), and all paper money will go down in relation to the only real money -- which is gold.

In the Notes & Quotes section I include a chart showing that Adjusted Reserves in the US banking system have been surging higher. The chart below, from the latest *Bank Credit Analyst,* is worth studying. Here we see gold and Global Reserves. Note that historically, Global Reserves tend to lead the price of gold. Well, Global Reserves are now exploding, pushing far ahead of the price of gold. In due time, gold will follow.



GOLD STOCKS: I dislike assumptions, but I'll assume that all my subscribers have some sort of position in gold -- gold coins, gold stocks, gold options, gold futures.

So let's get a little long-term perspective on what some of the best gold shares have been doing. These are monthly high-low charts of some of my favorite gold stocks, courtesy of *M. C. Horsey & Co.*, 120 South Blvd., Salisbury, MD 21801.

The first chart shows American Barrick. Since 1988 ABX has been in one long rise. On November 11 ABX rose to an all-time high above 30 (ABX will soon be included in the S&P 500). Personally, I have a large position in ABX; I've always liked it.

Agnico-Eagle has come a long positive way over the past few years. A few weeks ago it merged with Goldex, which is a veteran exploration company. Agnico has declined substantially from its 1987 high, but I expect it to go to new highs before this gold bull market has breathed its last. Agnico's president, Paul Penna, is a good friend, and a long-time gold mine expert. I like the stock, and lately it has been one of the better acting of the golds.

Homestake presents a very interesting chart. This is a very old (and famous) gold company, and I have other charts of HM going back to the '30s. I view this chart as showing a massive base-building affair. But listen, HM is not the stodgy company of old, since it now has many new mines located both within and outside the US. A critical upside breakout for HM would be 25, at which point I think we could see a further upside move, probably to the 40s and beyond. HM is a key gold stock, since it is the gold company which is best-known and most-followed by the public.

Pegasus Gold rallied to new highs during 1993. The new highs have stemmed from a five-year base. The stock acts well, and I like it.

Last but not least, we have Placer Dome Gold, which consists of the merger of Dome Mines, Campbell Red Lake and Placer Development. PDG recently surged above its double top in the 21-22 area, then climbed to a new high at 25. This is a premium gold stock -- next to ABX I have taken my second largest position in PDG.

Gold Action: Have you noticed that day after day gold and gold stocks will open lower in price, only to firm up during the trading day, and very often closing higher at the bell. I like this action. It means that speculators and traders are taking profits early in the trading day, but then new buyers come in, pushing prices higher as the day goes on. It's bull market action, speculators taking profits while investors accumulate.

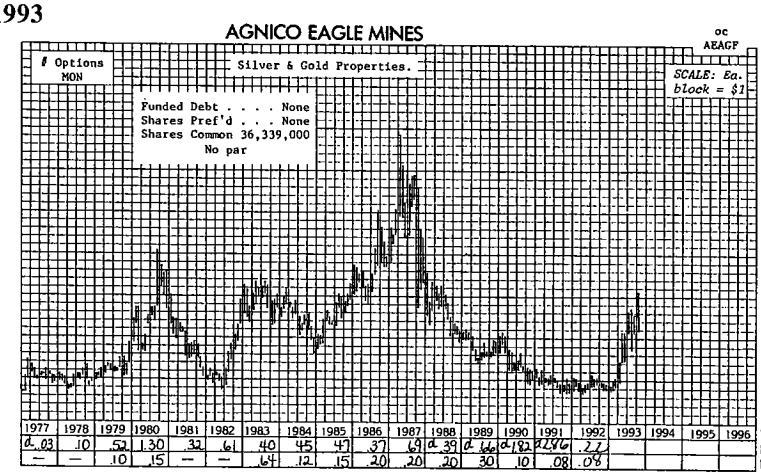
Sentiment: I recognize that gold-holders will be facing a constant anti-gold barrage by the fools in Washington and by "main-stream, know-nothing economists" who neither understand, nor want to understand what's happening in the gold-monetary-inflation picture. While these people continue to harangue against gold, those of us who understand the meaning of the rise in gold can enjoy the profits that the bull market in gold will be providing.

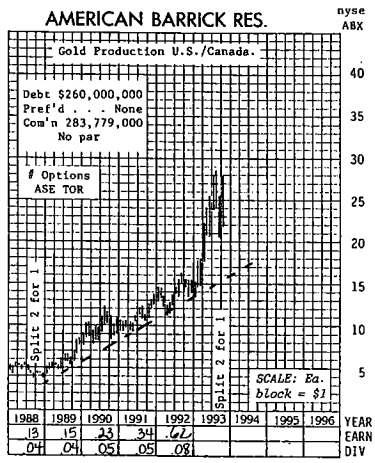
The current talk is that at least two central banks (Belgium is one) have been selling into the gold rise ever since the 350 level. The reason? The banks can receive interest on the paper that they take in on their gold sales. And that's fine as far as gold bulls are concerned. If true, and I believe the rumor is true, then I have to think that the gold action is tremendous, *since the metal has moved up against central bank sales.*

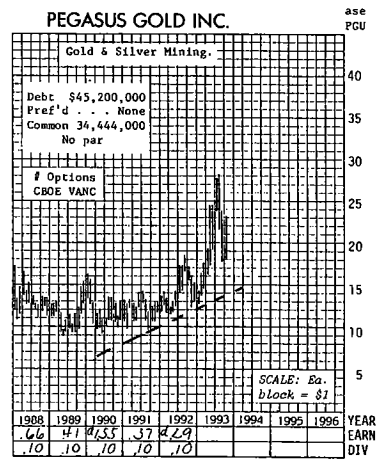
I might add that one problem with most central bankers is that they are bureaucrats, and like most bureaucrats they tend to believe the conventional wisdom and the blather (I could use a stronger word) that comes down the line.

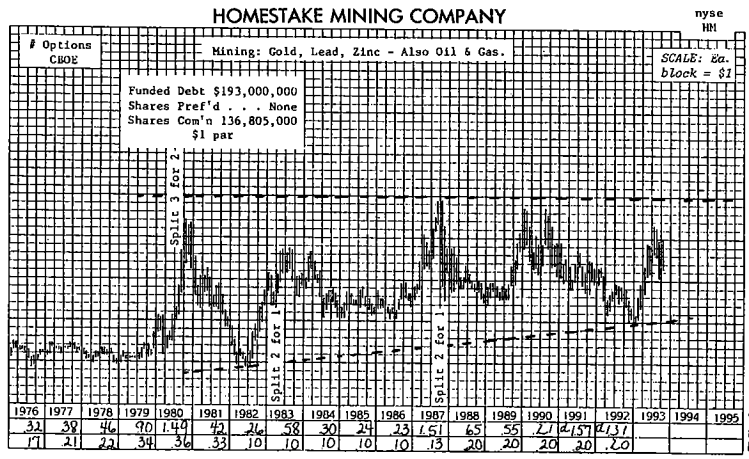
LATE NOTES: (and, believe me, these are very important late notes). The death knell of the advance-decline ratio has now sounded (see page 2 chart). I can now say with some authority that a major stock market top is either in place or is in the process of forming. *With the A-D ratio having topped out, any Dow rallies from here will just lead to additional non-confirmations and an even larger top.* The life of the bull market is now in jeopardy. **If you still have any stocks (except golds), head quietly for the exits.** If a bear market has started, the US economy will be in recession by early '94. If that happens, watch the Fed pump, and watch gold rise.

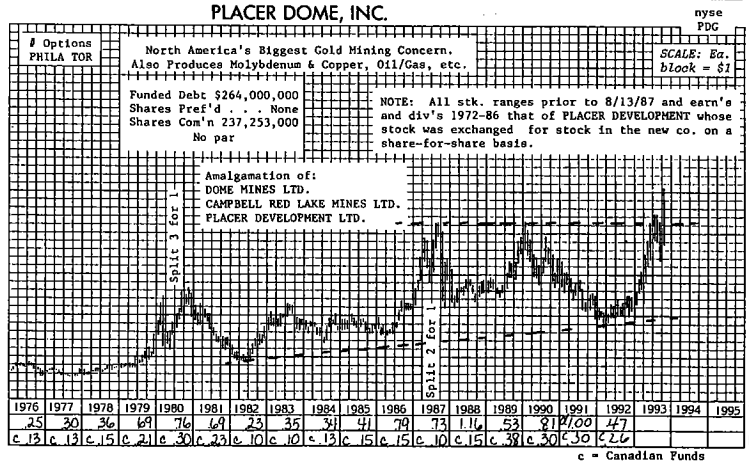
One big question in my mind -- if a bear market does start, can inflation (as per the front page of this Letter) take hold? Can even Fed mega-pumping counteract the deflationary forces of a primary bear market? More on this in the next Letter (when, hopefully, I'll know more).


AGNICO EAGLE MINES
oc AEAGF
Options MON
Silver & Gold Properties.
Funded Debt . . . . None
Shares Pref'd . . . . None
Shares Common 36,339,000
No par
SCALE: Ea. block = $1
1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 YEAR
EARN
DIV






HOMESTAKE MINING COMPANY
nyse HM
Options CBOE
Mining: Gold, Lead, Zinc - Also Oil & Gas.
Funded Debt $193,000,000
Shares Pref'd . . . None
Shares Com'n 136,805,000
$1 par
SCALE: Ea. block = $1
Split 3 for 2
Split 2 for 1
1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 YEAR
EARN
DIV


PLACER DOME, INC.
nyse PDG
Options PHILA TOR
North America's Biggest Gold Mining Concern.
Also Produces Molybdenum & Copper, Oil/Gas, etc.
Funded Debt $264,000,000
Shares Pref'd . . . None
Shares Com'n 237,253,000
No par
NOTE: All stk. ranges prior to 8/13/87 and earn's and div's 1972-86 that of PLACER DEVELOPMENT whose stock was exchanged for stock in the new co. on a share-for-share basis.
Amalgamation of:
DOME MINES LTD.
CAMPBELL RED LAKE MINES LTD.
PLACER DEVELOPMENT LTD.
SCALE: Ea. block = $1
Split 3 for 1
Split 2 for 1
1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 YEAR
EARN
DIV
c = Canadian Funds

NEXT MAILING: Dec. 8, 1993